STATE OF ILLINOIS

ILLINOIS COMMERCE COMMISSION

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| **Illinois Power Company** | ) | |
| | ) | **Docket 04-0476** |
| **Proposed general increase in natural gas rates (Tariffs filed June 25, 2004)** | ) | |
| | ) | |

# (PARTIAL) DRAFT ORDER

**DATED: February 10, 2005**

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**(PARTIAL) DRAFT ORDER**

By the Commission:

## I. PROCEDURAL HISTORY

On June 25, 2004, Illinois Power Company ("Illinois Power", "AmerenIP" or "IP") filed its Ill. C. C. No. 32, 10th Revised Sheet No. 1, 2nd Revised Sheet No. 2, 6th Revised Sheet No. 3, 3rd Revised Sheet No. 4, 3rd Revised Sheet No. 5, Original Sheet No. 5.1, Original Sheet No. 5.2, Original Sheet No. 5.3, 3rd Revised Sheet No. 11, 3rd Revised Sheet No. 12, 3rd Revised Sheet No. 13, 4th Revised Sheet No. 14, 3rd Revised Sheet No. 15, 2nd Revised Sheet No. 15.1, 5th Revised Sheet No. 16, 5th Revised Sheet No. 17, 4th Revised Sheet No. 18, 5th Revised Sheet No. 19, 6th Revised Sheet No. 20, 6th Revised Sheet No. 21, 4th Revised Sheet No. 21.1, 5th Revised Sheet No. 21.2, 1st Revised Sheet No. 21.3, 3rd Revised Sheet No. 23, 4th Revised Sheet No. 29, 6th Revised Sheet No. 43, 4th Revised Sheet No. 46, 3rd Revised Sheet No. 47, 4th Revised Sheet No. 48, 2nd Revised Sheet No. 49, 2nd Revised Sheet No. 49.1 and Ill. C. C. No. 34, 2nd Revised Sheet No. 1, 1st Revised Sheet No. 2, 2nd Revised Sheet No. 3, 2nd Revised Sheet No. 4, 1st Revised Sheet No. 4.1, 1st Revised Sheet No. 5, 1st Revised Sheet No. 6, 1st Revised Sheet No. 7, 1st Revised Sheet No. 9, and 1st Revised Sheet No. 10, hereinafter referred to as "Filed Rate Schedule Sheets", in which it proposed a general increase in natural gas rates, to be effective August 9, 2004. The filing of the Filed Rate Schedule Sheets was accompanied by prepared testimony and other exhibits and schedules and work papers pursuant to 83 Illinois Administrative Code Part 285.

Notice of IP's filing was published in newspapers of general circulation throughout IP's gas service area in accordance with the requirements of Section 9-201(a) of the Public Utilities Act ("Act"), 220 ILCS 5/9-201(a), and the provisions of 83 Ill. Adm. Code 255. The Commission entered a Suspension Order on July 21, 2004, and a Resuspension Order on November 10, 2004.

By letter dated July 19, 2004, from the Administrative Law Judge ("ALJ") assigned to the proceeding, IP was notified of certain deficiencies in its filing of schedules and work papers in accordance with 83 Ill. Administrative Code Part 285, Standard Filing Requirements for Electric, Gas, Telephone, Water and Sewer Utilities in Filing for an Increase in Rates. The deficiency letter required IP to provide various revised and additional schedules or an explanation as to why certain schedules need not be provided. Information responsive to the deficiency letter was timely provided by IP. There are no outstanding deficiencies and IP has complied with all other Standard Filing Requirements for gas utilities in connection with this proceeding.

Petitions to intervene were filed by A.E. Staley Manufacturing Company, Archer-Daniels-Midland Company, Caterpillar, Inc. and TeePak, LLC, as the Illinois Industrial Energy Consumers (collectively "IIEC"); the Attorney General on behalf of the People of the State of Illinois ("AG"); Business Energy Alliance and Resources, L.L.C. ("BEAR"); Constellation NewEnergy-Gas Division, LLC ("CNE-Gas"); the Citizens Utility Board ("CUB"); Central Illinois Public Service Company ("CIPS"); Central Illinois Light Company ("CILCO"); and Dynegy Inc. ("Dynegy"). All of the foregoing petitions to intervene were granted by the ALJ. Subsequently, CIPS and CILCO withdrew their interventions.

Pursuant to notice duly given in accordance with the Act and the rules and regulations of the Commission, a prehearing conference was held in this matter before a duly authorized ALJ of the Commission at its offices in Springfield, Illinois, on August 5, 2004. Ten days prior notice of the prehearing conference was provided by the Chief Clerk of the Commission to municipalities in IP's gas service area in accordance with the requirements of Section 10-108 of the Act (220 ILCS 5/10-108). Evidentiary hearings were held at the Commission's offices in Springfield on January 20 and 21, 2005. Appearances were entered at the prehearing conference or at one or more of the evidentiary hearings by counsel on behalf of IP, IIEC, AG, BEAR, CNE-Gas, CUB, CIPS, CILCO, Dynegy and the Staff of the Commission ("Staff"). On ________, 2005, the record was marked "Heard and Taken" by the ALJ.

The following witnesses submitted testimony on behalf of IP: Frank A. Starbody, Peggy E. Carter, Daniel L. Mortland, Kathleen C. McShane, Karen R. Althoff, Ronald D. Pate, Leonard M. Jones, Brian W. Blackburn, Patricia K. Spinner, Michael J. Adams, Dr. Ronald E. White, H. Gene Eagle, Kevin D. Shipp, Wayne G. Hood and Curtis D. Kemppainen, W. Chris Olsen, Dottie R. Anderson, Timothy L. Hower, Charles Mannix, Robert C. Porter and Lee R. Nickloy.

The following witnesses submitted testimony on behalf of Staff: Scott A. Struck, Burma C. Jones, Bonita A. Pearce, Janis Freetly, Michael McNally, Peter Lazare, Eric Lounsberry, Charles C. S. Iannello and Dianna Hathhorn.

The following witnesses submitted testimony on behalf of intervenors: David J. Effron, on behalf of the AG and CUB; Lee Smith on behalf of BEAR; Juliana Claussen and Troy Monroe on behalf of CNE-Gas; Christopher C. Thomas on behalf of CUB; and John W. Mallinckrodt and Dr. Alan Rosenberg on behalf of IIEC.

On January 20, 2005, during the evidentiary hearings, Staff filed a document captioned "Stipulation Concerning Resolution of Certain Revenue Requirements Issues" that was entered into between IP and Staff (the "Stipulation"). The Stipulation states that AmerenIP and Staff stipulate that certain then-outstanding revenue requirements issues shall be resolved as set forth in the Stipulation. The Stipulation covers the resolution of a number of rate base and operating expense issues and the issues of capital structure, cost rates for long-term debt, transitional funding trust notes and preferred stock, cost of common equity and overall rate of return. Taken in conjunction with the parties' acceptance at earlier stages of the proceeding of other proposed adjustments to rate base and operating revenues and expenses, resolution of issues in accordance with the Stipulation would resolve all revenue requirements issues in this proceeding with the exception of the Hillsboro Storage Field Base Gas Inventory and the Hillsboro Storage Field Used and Useful adjustment which are addressed in Sections III.B and III.C, respectively, of this Order. Appendix A to the Stipulation showed the development of the overall revenue requirement and base rate increase assuming Staff's positions on the two aforementioned Hillsboro Storage Field issues are adopted, and Appendix B to the Stipulation showed the development of the overall revenue requirement and base rate increase under the assumption that AmerenIP's positions on the aforementioned Hillsboro Storage Field issues are adopted.

The Stipulation states that AmerenIP and Staff acknowledge that each of the stipulated resolutions of issues listed in the Stipulation (the "Stipulated Resolutions") is supported by the record in this docket but that based on the record, the Commission could have reached a different determination for each of the Stipulated Resolutions. The Stipulation further states that AmerenIP and Staff each acknowledges that it is accepting the Stipulated Resolutions for purposes of this docket in order to reduce and simplify the issues in this proceeding, conserve resources, and reduce uncertainty. The Stipulation states that, accordingly, AmerenIP and Staff stipulate that neither of them will treat any of the Stipulated Resolutions as precedential for future cases, and that neither of them will argue, in any future cases, that the same or a similar issue to any of the Stipulated Resolutions should be decided by the Commission in the same manner set forth in the Stipulation on the grounds that the issue was resolved in such manner in this docket or that AmerenIP or Staff agreed to such resolution in this docket. The Stipulation further states that AmerenIP and Staff stipulate that they will request that the Commission's Order in this docket contain a statement that none of the Stipulated Resolutions shall be considered precedential for future cases. Finally, the Stipulation states that it shall not preclude AmerenIP, Staff or any other party from arguing in a future case that the same or a similar issue to any of the Stipulated Resolutions should be resolved in the same manner as set forth in the Stipulation, on any grounds other than that it was resolved in such manner in this docket or that AmerenIP or Staff agreed to such resolution in this docket.

At the hearing held on January 20, 2005, in this docket, the ALJ inquired on the record if any party had any objection to the Stipulation. No party stated that it had any objection to the Stipulation. (Tr. 37-38)

The Commission accepts the Stipulated Resolutions as set forth in the Stipulation and in Appendices A and B thereto, and, as shown in further detail in Sections III.A, V.A and VI of this Order, below, has incorporated the Stipulated

Resolutions into the determination of the overall gas utility revenue requirement for AmerenIP in this proceeding. None of the Stipulated Resolutions shall be considered precedential for future cases; however, this shall not preclude AmerenIP, Staff or any other party from arguing in a future case that the same or a similar issue to any of the Stipulated Resolutions should be resolved in the same manner as set forth in the Stipulation, on any grounds other than that the issue was resolved in such manner in this docket or that AmerenIP or Staff agreed to such resolution in this docket. In the discussion of Uncontested Adjustments to rate base, operating revenues and expenses and cost of capital and rate of return in Sections III.A, V.A and VI, below, this Order identifies each such adjustment that is a Stipulated Resolution.

The Commission notes that on September 30, 2004, during the course of this proceeding, IP was acquired by Ameren Corporation ("Ameren"). IP was formerly owned by Dynegy. The acquisition of IP by Ameren was approved by the Commission in Docket 04-0294 (Order issued September 22, 2004). Certain of the adjustments to rate base, operating expenses and cost of capital adopted for purposes of this proceeding, and the resolution of certain other issues herein, are the result of or otherwise reflect the acquisition of IP by Ameren from Dynegy.

Initial briefs were filed by ________________. Reply briefs were filed by ___________. An ALJ's proposed order was served on the parties. Briefs on exceptions were filed by ___________________, and briefs in reply to exceptions were filed by ______________. All exceptions and replies to exceptions have been duly considered by the Commission.

## II. TEST YEAR

For the test year in this proceeding, IP selected a historical test year consisting of the 2003 calendar year ended December 31, 2003, with pro forma adjustments. No party objected to the test year selected by IP. The pro forma adjustments adopted for purposes of this proceeding are identified in Sections III, V and VI of this Order.

## III. RATE BASE

Illinois Power's proposed rate base, as presented in its direct case filing, included both original cost less accumulated depreciation of gas utility plant in service at December 31, 2003, and original cost less accumulated depreciation of general and intangible plant allocated to the gas utility pursuant to an asset separation study performed by IP witness Adams of Navigant Consulting. IP's proposed rate base also included a number of adjustments to actual per-books balances at December 31, 2003. Some of these adjustments were objected to by other parties while a number of these adjustments were not objected to by other parties. Additional adjustments to rate base were proposed by Staff and/or the AG and CUB ("AG/CUB") and were accepted by IP. During the course of the case, certain of the proposed adjustments to rate base were modified based on updated information. Finally, as discussed in Section I of this Order, above, IP and Staff stipulated to the resolution of certain proposed adjustments to rate base as set forth in the Stipulation, and no other party objected to these Stipulated Resolutions. The uncontested or agreed adjustments to rate base that are being adopted for purposes of this Order are discussed in Section III.A below. The two remaining contested rate base issues, relating to the Hillsboro Storage Field Base Gas Inventory and the Hillsboro Storage Field Used and Useful status, are addressed in Sections III.B and III.C below.

### A. Uncontested Adjustments to Rate Base

#### 1. Depreciation Reserve Attributable to Contributions in Aid of Construction

The rate base incorporates the reserve for depreciation attributable to contributions in aid of construction that were recorded prior to 1984, at which time the Commission revised the Uniform System of Accounts ("USOA") to transfer the balance in Account 271, Contributions in Aid of Construction, to Account 101, Utility plant in service. (IP Ex. 2.1, p. 7)

#### 2. Materials and Supplies and Working Gas Inventory

The rate base includes the 13-month averages for the test year of materials and supplies in Accounts 154 and 163 reduced by the 13-month average of accounts payable balances associated with materials and supplies inventories recorded in Account 232. The rate base also includes the 13-month averages of working gas inventory balances in Account 164.1 and gas in leased storage in Account 165. As recommended by Staff witness Burma Jones, the 13-month average for Account 165 reflects a reduction of $8,830,000 to rate base due to the removal of prepayments for purchased gas from the monthly balances used to calculate the 13-month average. (IP Ex. 2.36, p. 1, col. (C)) Additionally, as recommended by Staff witness Eric Lounsberry, the December 31, 2003 balance of gas in leased storage has been reduced by $3,071,000 due to a reduction in IP's leased storage service contract with Mississippi River Transmission Corporation. (IP Ex. 2.36, p. 1, col. (F))

#### 3. Cash Working Capital

The rate base includes a cash working capital component that is based on a lead lag study prepared by IP witness Adams of Navigant Consulting based on test year 2003 data. The study originally prepared by Mr. Adams, as summarized in IP Exhibit 10.7, was subsequently adjusted (i) to remove the impacts of prepayments for gas purchases (Staff Ex. 9.0, Sch. 9.02), (ii) to remove the cash working capital requirement associated with deferred income taxes and investment tax credits, in connection with removal of ADIT and ADITC from the revenue requirement computation, and (iii) to correct certain computational errors. The final cash working capital component reducing rate base by approximately $1,073,000, was summarized on IP Exhibit 10.11.

### 4. Accumulated Deferred Income Taxes and Unamortized Investment Tax Credits

In connection with the acquisition of IP by Ameren, all of IP's accumulated deferred income taxes ("ADIT") and accumulated deferred investment tax credits ("ADITC") were eliminated as of September 30, 2004. Therefore, as of September 30, 2004, IP's balances of ADIT and ADITC were zero. Mr. Charles Mannix, Manager of Income Taxes for Ameren Services Company, testified that as a result, the rates to be set in this proceeding cannot be based on or reflect a reduction of rate base for any ADIT or ADITC that were recorded on IP's books as of and prior to September 30, 2004, or else IP would be in violation of the normalization provisions of the Internal Revenue Code, with the result that IP would no longer be entitled to claim accelerated depreciation for federal income tax purposes with respect to any depreciable assets subject to the jurisdiction of this Commission. (IP Ex. 18.1) The Stipulation provided that all ADIT at September 30, 2004, would be removed from the computation of rate base as presented by AmerenIP in IP Exhibit 2.55. In accordance with this Stipulated Resolution, all ADIT and ADITC recorded on IP's books as of and prior to September 30, 2004, have been removed in the computation of rate base for purposes of this case.

### 5. Customer Deposits

The rate base is reduced by the balance of customer deposits held by IP. IP originally used the December 31, 2003 balance of customer deposits for this purpose but subsequently agreed to use the average of 13 monthly balances for the test year as proposed by Staff witness Hathhorn. (IP Ex. 2.1, p. 9 and IP Ex. 2.36, p. 1, col. (E))

### 6. Customer Advances for Construction

The rate base reflects the balance of customer advances for construction recorded by IP at December 31, 2003. (IP Ex. 2.1, p. 9)

### 7. 2004 Capital Additions and Accumulated Depreciation on Additions

IP proposed to include capital additions to gas utility plant during 2004 in rate base. IP witness Pate described IP's Asset Management process for identifying, prioritizing and tracking progress associated with making capital investments (IP Ex. 6.1). Mr. Pate and IP rebuttal witness Eagle presented exhibits detailing IP's gas utility capital projects for 2004, the status of those projects and the expenditures on each project at several points in time. Based on application of the known and measurable standard required of pro forma adjustments by 83 Ill. Adm. Code 287.40, Staff witness Burma Jones recommended that the Commission should include in rate base only 2004 capital additions projects that had reached "scheduled" status in IP's Asset Management process by a specified date. IP agreed with this approach. In the Stipulation, Staff and IP stipulated that rate base should include the costs of 2004 capital additions projects that had reached "scheduled" status as of September 30, 2004, as presented in IP's rebuttal filing. (IP Ex. 12.4 and IP Ex. 2.36, p. 2, col. (K)) In addition, rate base is reduced by the amount of accumulated depreciation recorded for these 2004 capital additions, using the assumption that the capital additions are placed in service ratably throughout 2004. (IP Ex. 2.40 and IP Ex. 2.36, p. 2, col. (L))

### 8. Accumulated Depreciation on Embedded Plant in Service

In connection with inclusion of 2004 capital additions in rate base, IP agreed that rate base should also incorporate accumulated depreciation during 2004 on utility plant in service at the end of the test year, December 31, 2003 ("embedded plant in service") as proposed by AG/CUB witness Effron and Staff witness Jones. In the Stipulation, IP and Staff stipulated that rate base should reflect accumulated depreciation on embedded plant in service through September 30, 2004, as presented in IP's rebuttal testimony. (IP Ex. 2.37 and IP Ex. 2.36, p. 1, col. (H))

### 9. Hillsboro Storage Well Adjustment

During the course of this proceeding, IP determined that the cost recorded for drilling a new well at the Hillsboro Storage Field included certain expenditures that were capitalized but should have been expensed. Accordingly, IP adjusted rate base to reduce gas plant in service and accumulated depreciation to reflect the removal of these expenditures from plant in service. (IP Ex. 2.42 and IP Ex. 2.36, p. 2, col. (M))

### 10. Completed CWIP Not Transferred to Plant in Service at December 31, 2003

The rate base includes balances recorded on IP's books at December 31, 2003, as construction work in progress ("CWIP") for projects that had been completed and placed in service as of that date but which had not been transferred to utility plant in service accounts as of December 31, 2003. This adjustment also incorporates certain miscellaneous charges recorded for these projects subsequent to December 31, 2003. In addition, IP reduced rate base to reflect the retirement of various gas plant assets in connection with placing the CWIP projects into service. (IP Ex. 2.5; IP Ex. 6.7; IP Ex. 2.36, p. 3, col. (Q)) Finally, IP reduced rate base to reflect accumulated depreciation on these projects. (IP Ex. 2.40 and IP Ex. 2.36, p. 2, col. (P))

### 11. Small CWIP Projects

The rate base includes the balance at December 31, 2003, associated with small CWIP projects with durations of less than one month, on which no Allowance for Funds Used During Construction is charged. In addition, IP reduced rate base to reflect the retirement of gas plant assets in connection with placing the small CWIP projects into service. (IP Ex. 2.6 and IP Ex. 2.36, p. 3, col. (R)) Finally, IP reduced rate base to reflect accumulated depreciation on these small CWIP projects. (IP Ex. 2.40 and IP Ex. 2.36, p. 2, col. (P))

### 12. Adjustment for Capitalized Pension Expense

IP's adjustments to test year operating expenses included an adjustment for higher pension costs, as discussed in Section V.A of this Order. AG/CUB witness Effron noted that a portion of this adjustment to pension expense should be capitalized. IP agreed that a portion of the pension expense adjustment it initially proposed should be capitalized, and therefore that rate base should be correspondingly adjusted. In the Stipulation, IP and Staff stipulated that a 30% capitalization factor should be applied to the pension cost adjustment, as proposed by AG/CUB witness Effron and Staff witness Bonita Pearce.

### 13. Advanced Metering Equipment

As discussed in Section VIII.B of this Order, IP agreed to recommendations by Staff, IIEC and CNE-Gas that IP provide to transportation customers more timely information on daily gas deliveries, and to this end indicated that it would install additional metering and telecommunications equipment to facilitate providing daily usage information. AmerenIP witness Althoff presented IP Exhibit 5.9 showing a projected investment of $826,000 for this equipment. No party objected to the inclusion of this investment in rate base. (IP Ex. 2.36, p. 2, col. (O))

### 14. Retirement of River Bend Facility

IP reduced rate base to reflect the retirement in 2004 of its River Bend facility, which was still in service on December 31, 2003. This adjustment affected both utility plant in service and accumulated provision for depreciation. (IP Ex. 2.9 and IP Ex. 2.36, p. 3, col. (S))

### 15. Retirement of Computer Equipment

IP adjusted rate base to reflect the retirement in 2003 of certain mainframe computing equipment which was not recorded until 2004. This adjustment affects the portion of the original cost of this equipment and the related accumulated provision for depreciation that was allocated to the gas utility in the asset separation study. (IP Ex. 2.11 and IP Ex. 2.36, p. 3, col. (U))

### 16. Adjustment to General Plant Depreciation Reserve for Retirements

IP adjusted rate base component for the accumulated provision for depreciation for general plant to reflect the impact of retirements of certain general plant assets prior to December 31, 2003, that had not yet been recorded on IP's books as of that date. (IP Ex. 2.12 and IP Ex. 2.36, p. 3, col. (V))

#### 17. Incentive Compensation Costs and Stock Options Costs Capitalized

In the Stipulation, IP and Staff stipulated that incentive compensation costs (including the related payroll taxes (FICA)) and costs for employee stock options incurred during 2003 should be excluded from the computation of the revenue requirement. Because a portion of these costs were charged to construction and therefore capitalized, the adjustments to remove these costs reduce rate base as well.

#### 18. Relocation Reimbursements

Staff witness Burma Jones disagreed with IP's accounting for payments that are received from governmental entities or other third parties as reimbursement when IP retires facilities and replaces or relocates them at the request of the governmental entity or third party to accommodate a project, such as construction of a highway. IP's practice has been to record such payments as a credit to Account 108, Accumulated Reserve for Depreciation of Utility Plant and to record the cost of the replacement facilities in Account 101, Utility Plant in Service. Staff witness Jones testified that relocation reimbursements are Contributions in Aid of Construction ("CIAC") and should be recorded in the manner prescribed by Gas Plant Instruction 2(D) of the Uniform System of Accounts, which requires that contributions be credited to the accounts charged with the cost of construction. Although IP witness Peggy Carter, in rebuttal, disagreed with Ms. Jones and defended IP's accounting for relocation reimbursements, she also proposed a compromise approach whereby the third-party reimbursement payment would be recorded as a credit to Account 108 up to the actual cost recorded for removal or retirement of the facilities being relocated, with the balance recorded as CIAC. Only the cost incurred for the replacement facilities in excess of the CIAC would be recorded as an addition to plant in service. In her rebuttal testimony, Staff witness Jones testified that this compromise approach would be acceptable. In the Stipulation, Staff and AmerenIP stipulated that the adjustment, and IP's future accounting for, relocation reimbursements would be based on this compromise approach. This adjustment impacts both plant in service and accumulated depreciation.

### B. Hillsboro Storage Field Base Gas Inventory

#### 1. Staff's Position

#### 2. AmerenIP's Position

#### 3. Commission Conclusion

### C. Hillsboro Storage Field Used and Useful Status

#### 1. Staff's Position

### 2. AmerenIP’s Position

### 3. Commission Conclusion

## D. Overall Conclusion on Rate Base

Based on the gas utility rate base as originally proposed by IP, the uncontested adjustments to rate base as summarized in Section III.A above, and the Commission’s conclusions with respect to the Hillsboro Storage Field base gas inventory and the Hillsboro Storage Field used and useful status in Sections III.B and III.C, above, the gas utility rate base for AmerenIP approved for purposes of this proceeding is $______________. The rate base may be summarized as follows:

[Insert final rate base table]

The development of the overall gas utility rate base adopted for purposes of this proceeding is shown in the Appendix to this Order.

# IV. GAS DEPRECIATION RATES

As part of its filing in this case, Illinois Power requested approval of revised depreciation rates for its gas utility. IP last performed a gas depreciation study in 1992; the results of that study were approved by the Commission in Docket 92-0465 and were incorporated into the setting of IP’s gas rates in its last gas rate proceeding, Docket 93-0183. (IP Ex. 2.1, pp. 27-28)

IP’s proposed revised depreciation rates are based on a study prepared for IP by Foster Associates, Inc. (IP Ex. 11.3) Dr. Ronald E. White, Executive Vice President and Senior Associate of Foster Associates, sponsored the depreciation study and submitted prepared testimony describing it. (IP Ex. 11.1) He testified that Foster Associates is recommending a separation of the accrual rate for net salvage from the accrual rate for the investment portion of a plant account. Under this approach, depreciation charges for the investment portion of a plant account will be accumulated in primary account investment reserves, while net salvage accruals will be accumulated in function net salvage reserves. He stated that the benefits derived from a separate accrual rate for net salvage include reduced field reporting, simplified accounting and improved monitoring and control of reserve imbalances. However, Foster Associates is not recommending separation of the accrual rates for net salvage and the investment portion of the plant accounts for general plant accounts, because gross salvage and cost of removal for plant items classified as general plant are generally easier to identify than net salvage associated with transmission and distribution accounts. (IP Ex. 11.1, pp. 12-13)

Dr. White also testified that an analysis comparing the computed and recorded depreciation reserves for IP at December 31, 2003, showed a difference of $(27,192,728) between the recorded depreciation reserve and the computed reserve.

He testified that a proportionate amount of this measured reserve imbalance would be amortized over the composite weighted-average remaining life of each depreciation rate category. (IP Ex. 11.1, p. 13)

Finally, Dr. White testified that Foster Associates is recommending a rebalancing of depreciation reserves for IP. This will entail (i) maintaining recorded reserves by primary account, which IP has not done in the past, and (ii) separating the recorded reserve into an investment portion and a net salvage portion, such that net salvage can be recorded at the function level and depreciation expense exclusive of net salvage can be accrued by primary account. He explained that a redistribution of the recorded reserve is therefore necessary to develop an initial investment reserve balance for each primary account and a net salvage reserve balance for each function consistent with the estimates of retirement dispersion and net salvage rates developed in Foster Associates' study. Dr. White explained how the redistribution of the recorded reserve was calculated. (IP Ex. 11.1, p. 14)

IP's current Commission-approved depreciation rates were established at the function level (with the exception of general plant) and are as follows (IP Ex. 11.3, p. 16):

| | | |
|---|---|---|
| Underground Storage | | 1.76% |
| Transmission | | 2.29% |
| Distribution | | 3.60% |
| General Plant | | |
| Structures and Improvements | 2.04% | |
| Transportation Equipment | 4.81% | |
| Tools, Shops and Garage Equipment | 4.20% | |
| Laboratory Equipment | 4.20% | |
| Power Operated Equipment | 3.89% | |
| Miscellaneous Equipment | 4.20% | |
| Total General Plant | | 4.41% |
| Total Gas Utility | | 3.25% |

The following table shows the proposed depreciation rates, by account (IP Ex. 11.3, p. 16):

| **Account Description** | **Proposed Rate** |
|---|---|
| **Underground Storage** | |
| 351.20 Compressor Station Structures | 1.64% |
| 351.30 Meas. and Reg. Stations | 1.72% |
| 351.40 Other Structures | 1.76% |
| 352.00 Wells | 1.71% |
| 352.20 Reservoirs | 1.59% |
| 352.30 Nonrecoverable Natural Gas | 1.26% |
| 353.00 Lines | 1.96% |

| | |
|---|---|
| 354.00 Compressor Station Equipment | 2.09% |
| 355.00 Meas. and Reg. Equipment | 2.41% |
| 356.00 Purification Equipment | 1.74% |
| 357.00 Other Equipment | 2.42% |
| **Total Underground Storage** | 1.81% |
| | |
| **Transmission** | |
| 366.00 Structures and Improvements | 1.32% |
| 366.10 Compressor Station Structures | 2.04% |
| 366.20 Meas. and Reg. Station Structures | 2.23% |
| 366.30 Other Structures | 2.40% |
| 367.00 Mains | 1.22% |
| 368.00 Compressor Station Equipment | 1.96% |
| 369.00 Meas. and Reg. Station Equipment | 2.12% |
| **Total Transmission Plant** | **1.39%** |
| | |
| **Distribution** | |
| 375.00 Structures and Improvements | 1.51% |
| 376.00 Mains | 1.97% |
| 378.00 Meas. and Reg. Equipment – General | 1.99% |
| 379.00 Meas. and Reg. Equipment – City Gate | 2.96% |
| 380.00 Services | 2.17% |
| 381.00 Meters | 2.18% |
| 382.00 Meter Installations | 2.82% |
| 383.00 House Regulators | 2.82% |
| 385.00 Industrial Meas. and Reg. Station Equip. | 2.80% |
| **Total Distribution Plant** | **2.17%** |
| | |
| **General** | |
| 390.00 Structures and Improvements | 2.32% |
| 392.00 Transportation Equipment | 0.97% |
| 394.00 Tools, Shop and Garage Equipment | 2.12% |
| 395.00 Laboratory Equipment | 0.91% |
| 396.00 Power Operated Equipment | 2.53% |
| 398.00 Miscellaneous Equipment | 3.05% |
| **Total General Plant** | **1.66%** |
| **TOTAL INVESTMENT** | **2.00%** |
| | |
| **Net Salvage** | |
| 108.42 Underground Storage | 0.19% |
| 108.43 Transmission | 0.26% |
| 108.44 Distribution | 1.04% |
| **TOTAL NET SALVAGE** | **0.83%** |
| | |
| **TOTAL UTILITY** | **2.81%** |

A comparison of the current depreciation rates to the proposed depreciation rates shows that the proposed accrual rates are lower than the present rates in 27 of the 36 primary accounts included in the Foster Associates study. Dr. White calculated that based on December 31, 2003 plant balances, adoption of the proposed depreciation rates would reduce annualized depreciation expense by $3,200,674. (IP Ex. 11.1, p. 16)

Staff witness Burma Jones reviewed IP's depreciation study. She testified that the current case is the proper venue for IP to propose a change to its depreciation rates given that it has been approximately eleven years since the last change in IP's depreciation rates. She stated that the current depreciation study was warranted and that the results appear reasonable; therefore, she stated that she had no objection to the proposed depreciation rates. (Staff Ex. 2.0, pp. 15-16) No other party raised any issues concerning, or stated any objection to, the proposed depreciation rates.

Based on its review of the record, including the depreciation study submitted by IP, the Commission concludes that IP's proposed depreciation rates are reasonable and should be approved. The Commission concurs with Staff as well as IP that a review and revision to IP's depreciation rates is timely in connection with this proceeding. The Commission concludes that the separation of the accrual rates into an investment portion and a net salvage portion, the redistribution of the recorded reserve and the amortization of the reserve imbalance as estimated in the Foster Associates study, and the incorporation of these steps into the development of the proposed depreciation rates, as described in IP Exhibit 11.3, are reasonable and should be approved, pursuant to Section 5-104(a) of the Act (220 ILCS 5/5-104(a)).

## V. OPERATING REVENUES AND EXPENSES

Illinois Power's proposed operating income statement, as presented in its direct case filing, was based on test year 2003 actual expenses as adjusted by a number of proposed pro forma adjustments. Some of these adjustments were objected to by other parties while others of these adjustments were not objected to by other parties. Additional adjustments to operating revenues and expenses were proposed by Staff and/or AG/CUB and were accepted by IP. Finally, as discussed in Section I of this Order, above, IP and Staff stipulated to the resolution of certain proposed adjustments to operating expenses as set forth in the Stipulation, and no other party objected to these Stipulated Resolutions. As a result, as of the close of the record, there were no remaining contested adjustments to operating revenues and expenses. The uncontested or agreed adjustments to operating revenues and expenses that are being adopted for purposes of this Order are discussed in Section V.A below.

### A. Uncontested Adjustments to Operating Revenues and Expenses

#### 1. Rate Case Expenses

IP proposed an adjustment to amortize its incremental expenses for outside services associated with this rate case over a three-year period. In the Stipulation, Staff and IP stipulated that a three-year period should be used for amortization of the rate case expenses. In addition, Staff witness Michael McNally proposed that a portion of the fees paid by IP to its cost of common equity witness, Ms. McShane, should be disallowed. In the Stipulation, IP stipulated with Staff to this adjustment.

### 2. Pension Expense

IP's estimated pension expense as calculated by its actuary constitutes a significant increase over its actual 2003 pension expense. IP proposed an adjustment to increase operating expenses by the portion of the pension expense increase allocated to the gas utility. (IP Ex. 2.1, p. 22) While no party objected in principle to this adjustment, AG/CUB witness Effron and Staff witness Pearce noted that a portion of the adjustment should be capitalized reflecting that a portion of annual pension expense is charged to construction. IP agreed that a portion of the pension expense adjustment should be capitalized. In the Stipulation, IP and Staff stipulated to use of a 30% capitalization factor, as proposed by Mr. Effron and Ms. Pearce, for this purpose.

### 3. Company Use of Gas

IP proposed an adjustment to operating expenses to reflect the cost incurred to purchase gas for use at IP facilities, which is a cost not recoverable through the Purchased Gas Adjustment ("PGA") charge. No party objected to this adjustment. (IP Ex. 2.15 and IP Ex. 2.36, p. 5, col. (AL))

### 4. Pass-Through Taxes and Related Accounting Fee

IP reduced operating expenses by the amount of certain pass-through taxes and charges it collects for governmental bodies, including municipal utility taxes, State public utility taxes, the Public Utility Fund assessment, and the energy assistance and renewable energy fund charges. (IP Ex. 2.16 and IP Ex. 2.36, p. 6, col. (AM)). In addition, IP accepted AG/CUB witness Effron's position that in calculating the net revenue requirement on which the required revenue increase from base rates is based, the administrative fee that IP is allowed by statute to add to customer bills and to retain as a fee for billing, collecting and remitting municipal utility taxes should be included in miscellaneous revenues. (IP Ex. 2.35, p. 26)

### 5. 2004 Wage Increase Adjustment

IP adjusted operating expenses to reflect the known increases in gross payroll attributable to increases in employee salary levels and other salary adjustments scheduled to occur in 2004 for both union and non-union personnel. In calculating this adjustment, IP removed from the base 2003 payroll costs (i) payroll costs for employees whose positions have been eliminated and (ii) the portion of employee compensation applicable to incentive compensation payments, before applying the 2004 percentage increases. (IP Ex. 2.44 and IP Ex. 2.36, p. 3, col. (W))

### 6. Corporate Franchise Taxes

Operating expenses were adjusted for the portion allocated to the gas utility of an increase in IP's corporate franchise taxes in 2004 over 2003 resulting from a change in law. (IP Ex. 2.18 and IP Ex. 2.36, p. 6, col. (AN))

### 7. Retirement of River Bend Facility

As discussed in the Rate Base section of this Order, in 2004 IP retired its River Bend facility. Accordingly, operating expenses were adjusted to remove the portion of maintenance expenses and real estate taxes associated with this facility allocated to the gas utility. (IP Ex. 2.19 and IP Ex. 2.36, p. 6, col. (AO))

### 8. Charitable Contributions

Operating expenses were adjusted to incorporate IP's 2003 charitable contributions, which were previously recorded above the line in Account 930.2 but are now recorded below the line in Account 426.1 as the result of a 2003 revision to the USOA. This accounting change was not intended to impact the recoverability of expenses for donations for charitable, social and community welfare purposes in future rate proceedings. (IP Ex. 2.1, pp. 24-25, IP Ex. 2.20 and IP Ex. 2.36, p. 6, col. (AP))

### 9. Uncollectible Expenses

Test year uncollectible expenses were adjusted to reflect the average of IP's uncollectible expenses for the five-year period 1999-2003. (IP Ex. 2.21 and IP Ex. 2.36,p. 6, col.(AQ))

### 10. FICA Tax Increase

Operating expenses were increased to reflect higher FICA tax contributions in 2004 over 2003 due to a change in law that increased the amount of employee earnings on which employers are required to make FICA contributions. (IP Ex. 2.1, p. 26, IP Ex. 2.45 and IP Ex. 2.36, p. 4, col. (AE))

### 11. Donated Services

Operating expenses were increased to reflect the cost of gas and gas distribution services that IP provides to various municipalities at no charge or at discounted prices as franchise consideration under the terms of its franchise agreements. The cost of this free or discounted service is not recovered through the PGA charge. (IP Ex. 2.1, pp. 26-27, IP Ex. 2.23 and IP Ex. 2.36, p. 6, col. (AR))

#### 12. Payments to Severed Employees

Operating expenses were reduced to remove (i) the gas utility-allocated portion of wages paid to employees in 2003 whose positions have been eliminated and (ii) severance payments made to these employees. (IP Ex. 2.24 and IP Ex. 2.36, p. 6, col. (AS))

#### 13. Revised Gas Depreciation Rates

As described in Section IV of this Order, in this case IP is proposing new gas utility depreciation rates based on a recently completed depreciation study. The overall impact of the new depreciation rates is to lower the annual depreciation expense. IP calculated test year depreciation expense by applying the new depreciation rates to the December 31, 2003 plant balances. (IP Ex. 2.25 and IP Ex. 2.36, p. 7, col. (AU))

#### 14. Depreciation Expense Related to Plant in Service Adjustments including Retirements

IP increased or decreased test year depreciation expense, as applicable, to reflect the impacts on depreciation expense of the various plant in service adjustments to rate base, including the 2004 capital additions, completed CWIP not classified as plant in service at December 31, 2003, small CWIP projects, advanced metering equipment, plant retirements, the adjustment to the capital cost of the Hillsboro well and other plant-related adjustments described in the Rate Base section of this Order. The depreciation expense adjustments relating to gas plant additions that would be included in rate base prospectively utilized IP's new gas depreciation rates. (IP Ex. 2.50, IP Ex. 2.31, IP Ex. 2.42, IP Ex. 2.43 and IP Ex. 2.36, p. 7, col. (AT) and (AZ) and p. 5, col. (AF) and (AG))

#### 15. Company Use of Electricity

Operating expenses were increased to reflect the gas utility-allocated portion of the cost of electricity purchased by IP for use in company facilities. This cost is charged to Account 555, Purchased power. (IP Ex. 2.1, pp. 29-30, IP Ex. 2.27 and IP Ex. 2.36, p. 7, col. (AV))

#### 16. Retirement of East St. Louis Facility

During the course of 2003, IP retired a facility in East St. Louis. Operating expenses were adjusted to remove maintenance expenses and real estate taxes incurred for this facility during 2003 prior to its retirement. (IP Ex. 2.1, p. 30, IP Ex. 2.28 and IP Ex. 2.36, p. 7, col. (AW))

#### 17. Removal of Purchased Gas Costs

The expense for gas purchased to supply customers, which is included in IP's overall test year operating expenses but which is recovered through the PGA charge, was removed from operating expenses, since these purchased gas costs will not be taken into account in determining the revenue requirement to be recovered through base rates. (IP Ex. 2.29 and IP Ex. 2.36, p. 7, col. (AX))

### 18. Sales Expense

IP reduced operating expenses by removing demonstration and selling expenses, certain advertising expenses, revenues and expenses from merchandising, jobbing and contract work, and other sales expense recorded in Accounts 911 through 916. (IP Ex. 2.1, pp. 30-31, IP Ex. 2.30 and IP Ex. 2.36, p. 7, col. (AY))

### 19. Advertising Expense

In rebuttal testimony, IP agreed to accept a portion, but not all, of the adjustments proposed by Staff witness Pearce to remove certain advertising expenses from operating expenses. (IP Ex. 2.36, p. 4, col. (X) and (Y)) Ms. Pearce subsequently withdrew a portion of her remaining adjustment. (Staff Ex. 12.0, pp. 12-13)) In the Stipulation, IP and Staff stipulated that the balance of Ms. Pearce's proposed adjustment, as shown on Staff Schedule 12.05, should be accepted.

### 20. Industry Association Dues

In rebuttal testimony, IP agreed to accept a portion, but not all, of the adjustments proposed by Staff witness Pearce to remove certain industry association dues payments from operating expenses. (IP Ex. 2.36, p. 4, col. (Z)) Subsequently, in the Stipulation, IP and Staff stipulated that the balance of Ms. Pearce's proposed adjustment, as shown on Staff Schedule 12.06, should be accepted.

### 21. Lobbying Expense

Staff witness Pearce and AG/CUB witness Effron proposed adjustments to remove certain "lobbying" expenses from operating expenses. In rebuttal testimony, IP agreed to accept a portion, but not all, of the adjustment proposed by Staff witness Pearce. (IP Ex. 2.36, p. 4, col. (AA)) Subsequently, in the Stipulation, IP and Staff stipulated that the balance of Ms. Pearce's and Mr. Effron's proposed adjustment, as shown on Staff Schedule 12.07, should be accepted.

### 22. Injuries and Damages

IP accepted the adjustment proposed by Staff witness Pearce and AG/CUB witness Effron to remove from operating expenses the portion of test year injuries and damages expense related to Incurred But Not Reported claims. (IP Ex. 2.36, p. 4, col. (AB))

### 23. General Research Expense – EPRI Payments

IP accepted the adjustment proposed by Staff witness Pearce to reduce gas operating expenses by removing from general research expense certain payments made to the Electric Power Research Institute. (IP Ex. 2.36, p. 4, col. (AC))

### 24. Correction of Depreciation and Amortization Expense on General and Intangible Electric Plant Allocated to the Gas Utility

In rebuttal testimony, IP indicated that the amount of depreciation and amortization expense on electric general and intangible plant allocated to the gas utility had been overstated. Accordingly, IP adjusted operating expenses to remove the excess depreciation and amortization expense. (IP Ex. 2.35, p. 49 and IP Ex. 2.36, p. 5, col. (AH))

### 25. Interest on Customer Deposits

Staff witness Hathhorn proposed that interest on customer deposits held by IP should be included in operating expenses. (Staff Ex. 9.0 and Sched. 9.03) IP agreed with Ms. Hathhorn but disagreed with the amount of her proposed adjustment. (IP Ex. 2.35, pp. 27-28 and IP Ex. 2.36, p. 5, col. (AI)) In her rebuttal testimony, Ms. Hathhorn agreed with IP's calculation of this adjustment. (Staff Ex. 13.0, pp. 1-2)

### 26. Incentive Compensation and Stock Options Expense

In the Stipulation, IP and Staff stipulated that incentive compensation costs (including the related FICA taxes) and costs for employee stock options incurred during 2003 should be excluded from the computation of the revenue requirement, as proposed by Staff witness Pearce and AG/CUB witness Effron. As noted in the Rate Base section of this Order, a portion of these costs is expensed and a portion of these costs is charged to construction and capitalized. Therefore, the adjustments for incentive compensation and stock option costs entail both a reduction to operating expenses and a reduction to rate base, as reflected on ICC Staff Exhibit 12.0, Schedule 12.02 and on Settlement Schedule 3, respectively.

### 27. Acquisition-Related Operating Expense Savings

AmerenIP proposed to reduce test year 2003 operating expenses by the amount of the expense savings estimated to be achieved through a number of initiatives that are being implemented as a result of IP's acquisition by Ameren and its integration into the other Ameren companies. The amount of this reduction to operating expenses is $8,544,000. AmerenIP witness Robert Porter presented information on the operating expense savings that Ameren expects will be realized for AmerenIP's gas utility operations due to synergies achieved from the integration of IP into the Ameren companies. (IP Exs. 19.1-19.2) The list of projects and cost savings on which this adjustment is based were originally identified on Attachment B to Applicants' Exhibit 47.0 in Docket 04-0294, the proceeding in which the Commission approved Ameren's acquisition of IP. The adjustment amount of $8,544,000 was determined by identifying the projects that will have cost-reduction impacts for AmerenIP's gas utility operations, summing the savings expected from those projects, and applying the gas utility allocation factor used for allocating expense items in this case, 30.57%. The adjustment did not incorporate savings from projects that will produce savings solely for AmerenIP's electric operations.

Mr. Porter testified that the expense reduction of $8,544,000 by which gas utility operating expenses are being adjusted in this case are part of the overall $33 million of non-fuel operation and maintenance ("O&M") savings identified on Attachment B to Applicants' Exhibit 47.0 in Docket 04-0294. He pointed out that the Order in Docket 04-0294, in particular Conditions to Approval 20 to 23 in Appendix A to the Order, imposes specific obligations and procedures on Ameren and AmerenIP with respect to demonstrating progress towards implementing the projects listed on Attachment B to Applicants' Exhibit 47.0 and, ultimately, reflecting the resulting $33 million of O&M savings in AmerenIP's revenue requirement in future electric and gas rate cases. He noted that the Commission should recognize that AmerenIP is proposing to incorporate $8,544,000 of these projected operating expense savings in the calculation of the gas utility revenue requirement in this rate case. (IP Ex. 19.1, pp. 4-5) In the Stipulation, Staff and AmerenIP stipulated to incorporate AmerenIP's proposed $8,544,000 O&M expense reduction for acquisition-related savings in the revenue requirement in this case.

### 28. Relocation Reimbursements

As discussed in the Rate Base section of this Order at Section III.A.18, in the Stipulation IP and Staff stipulated to the use of the "compromise approach" to accounting for relocation reimbursements that was proposed by IP witness Carter and accepted by Staff witness Jones. Adoption of the "compromise approach," which effects a change in the method of accounting for relocation reimbursements, results in a reduction in test year depreciation expense.

## B. Overall Conclusion on Operating Expense Statement

Based on the gas utility operating expense statement as originally proposed by IP and the uncontested adjustments to operating revenues and expenses as summarized in Section V.A above, the total gas utility operating expenses for AmerenIP approved for purposes of this proceeding are $______________. This amount includes (i) the additional federal and State income tax expense associated with the revenue increase authorized in this proceeding and (ii) the incremental adjustment to uncollectible accounts expense associated with the revenue increase authorized in this proceeding. The operating expense statement may be summarized as follows:

[Insert final operating expense statement]

The development of the overall gas utility operating expenses adopted for purposes of this proceeding is shown in the Appendix to this Order.

## VI. COST OF CAPITAL AND RATE OF RETURN

Evidence concerning the cost of capital and rate of return was submitted by three parties in this docket, namely, Illinois Power, Staff and CUB. In the Stipulation, IP and Staff stipulated to a cost of common equity of 10.00% and an overall rate of return on rate base of 8.18%. IP and Staff also stipulated to the balances and cost rates for long-term debt, transitional funding trust notes ("TFTN") and preferred stock and the balance of common equity, to be used in calculating the overall rate of return. The balances incorporated in the Stipulated Resolution are as of November 30, 2004, and reflect the reduction of IP's common equity balance resulting from elimination of an intercompany note in connection with the acquisition by Ameren, debt redemptions implemented subsequent to the acquisition through December 1, 2004, and equity infusions by Ameren following the acquisition. Also per the Stipulated Resolutions, the rate of return incorporates an adjustment to eliminate a portion of IP's unamortized loss on reacquired debt that had previously been written off in connection with the deregulation of electric generation, as proposed by Staff witness Ms. Freetly. The overall rate of return of 8.18% is calculated as follows as shown on Schedule 8 to both Appendix A and Appendix B to the Stipulation:

| **Class of Capital** | **Amount** | **Percent of Total Capital** | **Cost** | **Weighted Cost** |
|---|---|---|---|---|
| Long-Term Debt | $ 684,908,607 | 29.70% | 6.27% | 1.86% |
| TFTN | $ 350,934,973 | 15.22% | 5.95% | 0.91% |
| Preferred Stock | $ 45,786,945 | 1.99% | 5.01% | 0.10% |
| Common Equity | $1,224,252,958 | 53.09% | 10.00% | 5.31% |
| Total Capital | $2,305,883,483 | 100.00% | | |
| **Weighted Average Cost of Capital** | | | | **8.18%** |

The Commission notes that the rate of return on common equity and the overall rate of return are both within the range of the recommendations presented by the cost of capital witnesses in this case. The Commission adopts the overall rate of return on rate base of 8.18%, including the capital structure components and cost rates shown above, as fair and reasonable for purposes of this proceeding.

## VII. COST OF SERVICE, REVENUE ALLOCATION AND RATE DESIGN

### A. Cost of Service Study

1. **Average and Excess versus Average and Peak Allocation Method**

   a. **IP's Position**

   b. **Staff's Position**

   c. **IIEC's Position**

   d. **Commission Conclusion**

2. **Allocation of Cost of Mains**

   a. **IP's Position**

   b. **Staff's Position**

   c. **IIEC's Position**

   d. **BEAR's Position**

   e. **Commission Conclusion**

3. **Allocation of Cost of Services**

   a. **IP's Position**

   b. **Staff's Position**

   c. **BEAR's Position**

   d. **Commission Conclusion**

4. **Use of AmerenIP Cost of Service Study versus Staff Cost of Service Study**

   a. **IP's Position**

   b. **Staff's Position**

   c. **Commission Conclusion**

5. **Allocation of Overall Revenue Requirement to Customer Classes**

1. **Daily Balancing and Cashout**

    a. **IP's Position**

    b. **Staff's Position**

    c. **IIEC's Position**

    d. **CNE-Gas Position**

    e. **Commission Conclusion**

2. **Group Balancing Tariff**

3. **Provision of Daily Usage Information and Advanced Metering and Telecommunications Equipment**

    a. **Applicability of Requirement for Equipment – Mandatory versus Optional**

    b. **Development of Charges for Electronic Metering Equipment and for Advanced Metering and Telecommunications Equipment**

    c. **Exit Fee**

4. **IIEC's Proposed Storage Service**

    a. **IIEC's Position**

    b. **IP's Position**

    c. **Commission's Conclusion**

5. **Recovery of Transportation Administration Costs**

6. **Critical Day Imbalance Charge**

7. **Other Changes to Rider OT**

**C. Other Changes to Bundled Gas Tariffs (Service Classifications 51, 63, 64 and 65)**

**D. Other Changes to AmerenIP's Standard Terms and Conditions and Rules, Regulations and Conditions Applying to Gas Service**

### E. Treatment of Past-Due Payments

#### 1. CNE-Gas Position

#### 2. IP's Position

#### 3. Commission Conclusion

### F. Lost and Unaccounted for Factor

#### 1. IIEC's Position

#### 2. IP's Position

#### 3. Staff's Position

#### 4. Commission Conclusion

### G. Definition of "Therm"

#### 1. IIEC's Position

#### 2. IP's Position

#### 3. Commission Conclusion

## IX. FINDINGS AND ORDERING PARAGRAPHS

The Commission, having considered the entire record and being fully advised in the premises, is of the opinion and finds that:

(1) Illinois Power Company is an Illinois corporation engaged in the transmission, distribution, transportation and sale of natural gas to customers at retail in this State, and as such is a public utility within the meaning of the Public Utilities Act;

(2) the Commission has jurisdiction over IP and the subject matter herein;

(3) the recitals of facts and conclusions reached in the prefatory portion of this Order are supported by the evidence of record and are hereby adopted as findings of fact; the attached Appendix provides supporting calculations for various portions of this Order;

(4) the test year for the determination of the delivery services rates approved herein is the historic test year ended December 31, 2003; such test year is appropriate for purposes of this proceeding;

(5) for purposes of this proceeding, Illinois Power's net original cost gas utility rate base is $___________;

(6) Illinois Power's proposed revised gas depreciation rates applicable to gas utility plant in service, as described in IP Exhibit 11.3 submitted in this proceeding and as set forth in Section IV of this Order, are reasonable and should be approved pursuant to Section 5-104(a) of the Public Utilities Act;

(7) a just and reasonable rate of return which Illinois Power should be allowed to earn on its gas utility rate base is 8.18%, which incorporates a rate of return on common equity of 10.00%;

(8) for purposes of this proceeding, Illinois Power's gas utility revenue requirement, excluding the cost of natural gas and add-on taxes and charges, is $_________; IP should be authorized to file and place into effect gas utility tariffs which will recover this revenue requirement, net of miscellaneous revenues, through base rate charges, resulting in an increase in annual revenues from base rates of [$11,336,000] [other] [$14,227,000], based on test year 2003 weather-normalized billing determinants;

(9) Illinois Power's rates which are presently in effect for gas service are insufficient to generate the operating income necessary to permit IP the opportunity to earn a fair and reasonable return on net original cost rate base; these rates should be permanently cancelled and annulled;

(10) the rates proposed by Illinois Power in the Filed Rate Schedule Sheets for its gas operations will produce a rate of return in excess of a return that is fair and reasonable; IP's Filed Rate Schedule Sheets should be permanently cancelled and annulled;

(11) Illinois Power's Service Classifications 51, 63, 64, 65, 66, 76 and Rider OT and the proposed revisions to its Standard Terms and Conditions and to its Rules, Regulations and Conditions Applying to Gas Service, as modified by agreement during the course of this proceeding or as further directed in the prefatory portion of this Order, are hereby found to be just and reasonable;

(12) the interclass revenue allocation and rate design discussed and accepted in the prefatory portion of this Order are just and reasonable for purposes of this proceeding and should be adopted;

(13) Illinois Power shall file tariff sheets in compliance with the findings and conclusions of this Order containing an effective date not less than three

days after the date of filing, with the tariff sheets to be corrected within that time period if necessary; such tariff sheets shall be applicable to service rendered on and after their effective date; and

(14) all objections, petitions or motions in this proceeding which remain undisposed of should be disposed of in a manner consistent with the ultimate conclusions in this Order.

IT IS THEREFORE ORDERED that the tariffs presently in effect for gas service rendered by Illinois Power Company are hereby permanently cancelled and annulled at such time as the new gas tariff sheets approved herein become effective by virtue of this Order.

IT IS FURTHER ORDERED that the Filed Rate Schedule Sheets proposing a general increase in gas rates, filed by Illinois Power on June 25, 2004, are permanently cancelled and annulled.

IT IS FURTHER ORDERED that Illinois Power Company is hereby authorized and directed to file new gas utility tariff sheets in accordance with Findings (8), (11), (12) and (13) of this Order, applicable to gas service furnished on and after the effective date of said gas utility tariff sheets.

IT IS FURTHER ORDERED that Illinois Power Company's proposed depreciation rates for its gas utility, as described in IP Exhibit 11.3 submitted in this proceeding and as set forth in Section IV of this Order, are hereby approved pursuant to Section 5-104(a) of the Public Utilities Act.

IT IS FURTHER ORDERED that any objections, petitions or motions in this proceeding which remain undisposed of are hereby disposed of in a manner consistent with the ultimate conclusions herein contained.

IT IS FURTHER ORDERED that subject to the provisions of Section 10-113 of the Public Utilities Act and 83 Ill. Adm. Code Section 200.880, this Order is final; it is not subject to the Administrative Review Law.

By order of the Commission this __ day of May, 2005.

(SIGNED) EDWARD C. HURLEY

Chairman